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STATE FOR EAP/CM AND EEB/OMA, TREASURY FOR OASIA

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SUBJECT: Hang Seng in Biggest Slide since Asia Financial Crisis

REFS: A) HONG KONG 1875, B) HONG KONG 1866

¶1. Summary: The Hang Seng fell another 7.7 percent on Friday, October 10, capping its biggest weekly slide since the Asian Financial Crisis. HIBOR remained high, despite HKMA efforts to assure banks have access to short-term capital. Hong Kong economic leaders predicted worse to come, advising investors to unite to prepare for the crisis. Retailer U-right announced it would close its 95 stores in Hong Kong and lay off hundreds of staff if it is unable to find a savior to help it pay off HKD 1.2 billion (US$ 155 million) in loans. Senior officials warned that other SMEs may follow. End Summary.

Hang Seng Down to 2005 Levels

¶2. The Hong Kong Stock Market continued its slide on Friday, following the Nikkei and the Dow down. The Hang Seng Index opened down 1226 points or 7.7 percent, falling below 15,000 for the first time since 2005. The market continued to slide during the day, losing as much as 10 percent before bouncing back to finish at 14796.87, down 7.2 percent from Thursday's close. Total volume was HKD 70 billion. The Hang Seng Index lost 2885.53 points or 16.3 percent this week, the biggest weekly percentage loss since the Asian Financial Crisis in 1997.

¶3. Financial and property stocks took the largest hits. Banking giant HSBC fell 8 percent, despite reassuring investors that it held sufficient capital and would not approach the British government for assistance. China Construction Bank lost another 10 percent as Bank of America confirmed it would sell part of its stake in the Mainland bank to raise additional cash. Bank of Communications lost 8.0 percent, and Bank of China and Bank of China Hong Kong lost 7-8 percent.

No Reassurance From HK Officials

¶4. Hong Kong senior economic officials offered mixed reactions to the deteriorating global financial situation. Financial Secretary John Tsang repeated his remarks from October 9, suggesting Hong Kong residents should unite to prepare for a crisis, the full effects of which have not yet hit Hong Kong. HKMA Chief Executive Joseph Yam did not show up early in the morning at the main entrance of Two IFC to talk to the press, as has been his custom for the past several days. Secretary for Financial Services and the Treasury K.C. Chan told the press that market confidence is very fragile and worried that the credit crunch would disproportionately impact small and medium-sized enterprises.

¶5. As if to prove Chan's point, local garment retailer U-right entered liquidation and announced it may have to close its 95 stores in Hong Kong and lay off hundreds of employees if it fails to find a new investor. The 19-year-old retailer reportedly cannot repay HKD 1.2 billion (US$ 155 million) in bank loans as scheduled. Chinese language daily Ming Pao warned in an editorial (October 10) that U-right's financial problems herald similar problems for local small and medium-sized enterprises. SME's provide jobs for half of Hong

Kong's work force.

¶6. Other than for overnight borrowing, HIBOR quoted by Hang Seng Bank at 4 pm today were all higher than last Friday, with one, two and three month rates topping 5.0 percent, 4.50 and 4.40 percent respectively. HKMA's two interest rate cuts this week failed to stem bank reluctance to lend to their counterparts. Overnight rates were 1.75; one week was 3.5; 2 weeks was 4.0; one month was 5.0; 2 months was 4.5; 3 months hit 4.4; and 6 months was 4.1 percent.
Donovan